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14 February 1990

Charles Powell Esq
Private Secretary to the
Prime Minister
10 Downing Street
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Dear Charles,

SOUTH AFRICA

The Chancellor has seen your letter of 3 February to Stephen Wall. He has also seen Stephen Wall's reply of 9 February. He feels strongly that the measures proposed by Mr de Klerk are very welcome, and we must encourage South Africa towards a fully democratic constitution and the abolition of apartheid.

He agrees that we should seek to persuade our European Community partners to lift the bans on investment in South Africa and on imports of iron, steel and Krugerrands. He does not underestimate the difficulty of doing this but believes it would deliver an important message, even though the benefits to South Africa would be symbolic rather than substantive. He believes we should review our position further once Foreign Ministers have discussed the issues in Dublin.

He agrees also that the Prime Minister should try to persuade President Bush to tackle the US Congressional block on South African access to funds from the IMF and IBRD. This, too, is likely to be difficult. Even if the US block was lifted, however, South Africa would face opposition from a number of other countries. These would be likely to argue on 'technical' grounds that any lending to South Africa should be conditional on a reduction in structural rigidities in the economy ie dismantling of apartheid.

The UK itself has always eschewed an overtly political line in the boards of the international financial institutions and has judged



programmes on their merits. South Africa should now be treated similarly. This approach has enhanced our credibility and has stood us in good stead eg when we have been able to insist on the removal of Argentinian trade discrimination against the UK as a condition of lending.

The Chancellor believes that it is in the UK's interest to maintain this approach, and that any South African request for financial assistance now deserves to be judged on its technical merits. He agrees that humanitarian IBRD projects to help the poorest sections of South Africa might have the best chance of success with other members.

Tarczew Tarkowski

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Private Secretary

